of their cash generative capacity. By way of explanation, the cash and cash flow coming out of Microsoft's current business could return our investment in seven years.

We have interesting companies that will benefit from **enhanced fuel efficiency or electric drives** for automobiles such as Denso, Sumitomo Electric and Infineon. The **drug industry** continues to innovate and several of our positions are past the hump with regard to patent expiry and while developed market conditions will reflect fiscal austerity, the scope of their market has expanded enormously as industrialisation has surged elsewhere. This has also opened up **huge new pools of consumers** and enhanced the growth prospects of **aspirational brands** such as Gucci (PPR), Guess?, BMW and others.

Even in boring, **traditional industries**, the relative change in the prices of inputs has altered the competitive dynamic and gives rise to opportunities in pulp and paper. Our research shows that **financials** are now two standard deviations below their traditional valuations. This is barely a surprise given the distortions and over-valuation that characterised the period but among them are relatively innocent by-standers like Allianz Insurance and Deutsche Börse, as well as cleansed survivors of the banking crises in Asia of 1998 like Bangkok Bank. To be complete, we also own a despised survivor of the US sub-prime mess, Bank of America. This is presently selling for less than tangible assets, having just settled US$8.5 billion with their largest group of claimants regarding its involvement with dubious loans during the housing boom and it is being priced as though it is permanently impaired.

Let's now turn back to the economic concerns. The solutions being administered in virtually every theatre seem incoherent—as we have highlighted in earlier writing. **Markets are dealing with the consequent uncertainties by reducing the rating/valuation of equities** and meting out especial punishment for those companies with disappointing results or those assessed as having weak prospects.

The balance of probabilities leads us to believe that **slower growth is inevitable for most developed economies** as they battle with fiscal responsibility. By contrast, the **emerging markets face the challenge of accelerating inflation which is being addressed via monetary policy** (higher short-term cost of money).

We have reservations about Chinese growth prospects that were aired in the last quarterly report and the consequential slowing in the rest of Asia.

For now, the Greek problem has been deferred but it remains to be seen whether they stick to the timetable for the €50 billion asset sell-off. We should expect this problem to resurface at some stage and it may coincide with other uncertainties such as government workers in other European countries demanding the maintenance of their living standards etc.

In the US, there is the impending war of wills regarding the debt ceiling with the need to address taxation levels and/or spending levels. To outsiders, it appears like a dangerous game of calling each other's bluff.

For all these problems, we know, however, that governments are dependent on individual companies to provide employment and to create new jobs. Also that globalisation, which is epitomised by capital, technical and managerial mobility, forces governments to tread wearily in their taxation and regulation of enterprise. We can cite several instances of regulatory retreat in recent months. Job growth is likely to be an intractable problem for the politician. Despite high unemployment, the problem in many western countries lies in the distribution of skills; at the high and low end there are generally too few applicants and it is in the middle ranks where the mismatch is most evident. With all the media bluster, this places huge pressure on the political process.

CONCLUSION

Deferment and inconsistent policies shroud the economic vista. Risk assets reflect this with seemingly cautious trend valuations even as companies have reduced their level of capital expenditure and balance sheet indebtedness. Certainly this does not preclude them from being derated further given the prevailing uncertainty. This high level appraisal does not, however, solve the problem facing the individual or pooled investor. Consider the problem facing, for example, a sovereign wealth fund (in some cases the product of the imbalances we refer to so often), there is only so much they may want in sovereign bonds, cash or property. Over time, equities have given the most interesting returns. At the same time, many corporations have not completed their global ambitions or are simply sitting on too much cash which is likely to lead to a significant step-up in mergers and acquisitions. While the convolutions of the day tempt one to play every market move, the past teaches us to seek out the exceptions and play a long-term game.

If you have any questions about your investment in the MLC-Platinum Global Fund, please contact the MasterKey Service Centre on

132 652 from anywhere in Australia or
0061 2 9466 7180 from overseas

Platinum Asset Management is an Australian based international fund manager.
For greater insight into our process, please visit our website at *www.platinum.com.au*

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MLC-Platinum Global Fund

QUARTERLY REPORT

PERFORMANCE (as at 30 June 2011)

Fund Size: $1.24bn	Last Quarter	Last 12 months	5 years (compound pa)	Since Inception (compound pa)
MLC-Platinum Global Fund	-3.3%	-3.1%	1.5%	10.7%
Morgan Stanley Capital International All Country World Net Index (A$)	-3.2%	2.7%	-4.1%	4.3%

Source: MLC Investments Limited and Platinum

From the beginning of the calendar year, there was a marked shift in sentiment away from early cycle recovery stocks towards later cycle plays, in addition to a generally more cautious tone which benefitted defensives.

The surprise for some was the continuing weakness in the emerging markets where their underlying economies continued to perform strongly yet their stock markets rose reluctantly in local currencies by single digits or low teens. (A reminder of the market's discounting mechanism at work). By contrast, the developed markets rose strongly and in terms of their domestic currencies, rising by around a fifth.

This diverse pattern was mainly due to the emerging markets hitting the speed-bumps of growth and the rise of inflation, particularly in food prices. There has been a tendency for their Central Banks to tighten credit and to allow an ever so small appreciation of their currencies.

From what we can see, the only function achieved by QE2 was to frighten investors into riskier assets and to scare foreigners from holding US$. Where countries tightly manage their currencies, such as the Chinese Renminbi, they have no choice but to hold US$ in their reserves; should they try to dispose of them this would unbalance the basket of currencies against which they peg themselves! As we have noted so often, this is not a sustainable nexus and might be compared to flying a helicopter in a straight jacket. The re-emergence of the fiscal problems of Greece, the budget imbalances in the US and the progressive tightening in emerging markets sapped confidence in the second quarter and led to a small retracement for the last three months.

When we look at our performance over the past year we are disappointed. Due to our concern about the economic outlook, our positioning has been too defensive and in addition, our positions included several poor performing, though cheap, technology stocks. Our high exposure to Japanese companies also took its toll when the East Coast was struck by the disastrous Tsunami in March and caused widespread damage and loss of life. In addition, by not hedging back into the soaring A$ (up 27%), our limited gains converted to loss.

This unusual convergence of events has resulted in an unusually poor showing by our Fund which is down 3.1% for the year. While we can point to our good historic performance etc, we are nevertheless humbled by this experience and know what is necessary to ensure a positive reversal without over-reacting or being incautious.

MSCI* WORLD INDEX SECTOR PERFORMANCE (AUD)

Sector	3 mths	6 mths	1 Year
Energy	-9%	3%	13%
Materials	-5%	-3%	11%
Consumer Discretionary	2%	3%	10%
Industrials	-4%	1%	7%
Telecommunications	-2%	2%	3%
Healthcare	4%	8%	1%
Consumer Staples	3%	3%	1%
Financials	-6%	-3%	-5%
Information Technology	-5%	-4%	-2%
Utilities	-2%	-1%	-8%

* Morgan Stanley Capital International — Source: MSCI

MSCI* WORLD INDEX REGIONAL PERFORMANCE (AUD/LOCAL)

	AUD		LOCAL	
Region	6 mths	1 Year	6 mths	1 Year
Germany	9%	15%	6%	23%
Korea	4%	13%	2%	25%
France	11%	12%	7%	20%
Australia	-1%	11%	-1%	11%
UK	1%	6%	3%	25%
US	1%	3%	6%	31%
Developed Markets	1%	3%	3%	22%
Emerging Markets	-3%	1%	-2%	17%
Hong Kong	-6%	-1%	-1%	26%
Japan	-9%	-11%	-5%	3%
China	-3%	-11%	1%	12%
India	-12%	-15%	-9%	4%

* Morgan Stanley Capital International — Source: MSCI

CURRENCIES

There were few significant changes in our position; some trading among the underlying holdings but no departure from our view about the Asian currencies offering the best longer term value. As we saw briefly during this last quarter, the A$ is regarded as a proxy for principally Asian growth and we have no plans to increase our exposure given our current view.

Platinum® ASSET MANAGEMENT

MLC

MLC-Platinum Global Fund Quarterly Report (Continued)

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS (NET INVESTED POSITION)

Region	Jun 11	Mar 11
Europe	30.9%	29.8%
North America *	20.5%	17.6%
Japan	19.4%	20.0%
Asia and Other	15.9%	18.8%
Australia	1.2%	1.0%
Cash	12.1%	12.8%

Source: MLC Investments Limited and Platinum

* At 30 June 2011, the Fund had a short position in the US against the Russell 2000 Index of 6.4% (31 March 2011: 6.3%).

We have continued to build our position in **Nexen** and **Deutsche Börse** which we described in detail last quarter. This has been funded by selling down holdings in **International Paper (IP)** and **Royal Dutch Shell**.

IP has just launched a bid for Temple-Inland, a company engaged in contiguous areas to IP in packaging as well as timber and building products. An interesting acquisition, but they are paying a high price and have not fully resolved the issues with their existing packaging and paper business in our view.

The sale of Shell expresses no disappointment with this fine company but is directed at taking advantage of the markets relative disdain for Nexen. This stock has been falling through the quarter as Somali faces the challenges of a change of government and because of disappointing results with its tar sands extraction rates.

We also sold out of **Lagardere** and **Veolia Environnement** which have limited attraction versus the likes of companies exposed to the longer term capital spending cycle like **Foster Wheeler** and **Jacobs Engineering** (US capital spending is at multi-decade lows!).

One interesting new holding is **Guess?** This company evolved from a denim brand with heavy exposure to the US department store channel, into a near-premium priced, niche, global lifestyle brand which is diversified by product, geography and distribution channel. The brand has successfully held its market niche and derives about 40% of its sales from accessories like watches, handbags and footwear which has reduced its exposure to fashion trends and the more competitive casual apparel market. It is one of very few brands that has successfully made this transition and has been guided there by the entrepreneurial Marciano brothers, Paul (CEO) and Maurice (Chairman) who have been intensely involved with the company since 1981. The Guess? brand now has group sales, including licensees, of over US$5 billion. It is highly profitable and earns around 80% on capital employed.

While the business in the US (50% of sales, 34% of EBIT) will only grow slowly as the core store concept has reached saturation, the brand has long had an international presence and has scope to grow quickly internationally. Historically, international licensees did not take full advantage of the growth opportunities with the result that Guess? is yet to have a meaningful presence in a number of major markets, although brand recognition is strong. Management has been rectifying this since 2005, with the acquisition of licensees in Europe and Asia preceding a rapid store rollout program. Guess? expects to double its European business (37% of sales, 39% of EBIT) over five years; and has high ambitions for Asia (8% of sales, 6% of EBIT) — where the brand has recently reached profitability in China and is expanding quickly outside of its traditional stronghold, South Korea (~50% of Asia sales).

Near-term, the market is concerned about economic and fashion headwinds in the US, a disappointing margin performance in Europe for last quarter and poor financial year first quarter 2012 guidance. Further, market scepticism exists due to the departure in 2010 of a long-serving and well-regarded Chief Operating Officer who was the link to investors (the Marciano brothers keep their distance from analysts). Also, there is a lack of visibility in the international businesses due to the combined reporting of European and Asia results from wholesale operations, company owned stores, and sales to franchisee stores. We believe that current margin pressure is mostly temporary and relates to the timing of store openings and an unanticipated slight shift in fashion trends that will flow through in the near-term as the product mix is adjusted.

The company is simply too cheap on a 13% buyout. Additionally, the specialty apparel retail sector as a whole seems to be out-of-favour based on where stocks are trading versus their history and Guess? currently trades well-below its 2007 peak despite having increased earnings by 56% since then. The immediate catalyst for a re-rating of the share price is for Guess? to achieve its first quarter 2012 EPS guidance of $3.30—$3.50. At the moment, the market doesn't seem to believe it can reach that target, given the poor first quarter guidance. If this is achieved, the share should trade on a PE more befitting a company with its growth outlook, and more in line with peers—15x first quarter 2013 estimate does not seem a stretch. This would see the stock price at $58 (+50%).

COMMENTARY

It is easy to get tied up in knots by the imponderables that abound in the international economic scene. Rather than starting with the uncertainties, let's look to first principles and examine the opportunities.

The interest of investing in global equities, as opposed to solely investing in one's home market, presumably lies in the expanded opportunity and diversity it brings. One can often gain exposure to businesses that are scarce or absent from your home market and you can choose to run, amplify or avoid currency risk by hedging back into your home currency. Right now, Australian investors seem weary to invest abroad, discouraged by the significant currency impairment inflicted by the 60% appreciation of the A$ in the post-Lehman recovery. Moreover, pre-emptive action by the Reserve Bank in lifting interest rates induces both locals and foreigners to accumulate the A$ because of the attractive return on cash and the seemingly rock solid prospects for our primary exports to the fastest growing region in the world.

Let's, however, suppose that we are guided by history. This points to the long-term return (1900 to 2008) from equities of the order of 6% pa over and above inflation. Interestingly, dividends accounted for the majority of this total return at 4.3% pa. Clearly this was no simple linear compounding but was made up of periodic surges and relatively shorter periods of severe retracements. For perspective, it was a period of huge turmoil with the suspension of the market price-setting mechanism (and not only in the communist countries), two world wars, endless regional wars, the Great Depression (incidentally, a product of severe trade imbalances among the major economies of the day - please refer to the last quarterly report at www.platinum.com.au/images/mlcqtr_0311.pdf), regional banking busts, regional currency collapses and more depredations into foreign lands - hardly a span of harmony and tranquillity!

An enthusiastic participant might wish to remind the writer that there were times one should have simply been on the sidelines, and anyway, this time it's different and the world is really in a mess. History probably tells us that it always does feel different at the time, yet human behaviour is remarkably predictable. As for sitting on the sidelines, it should be noted that the major developed market indices are still below their levels of some 11 years ago (in their home currencies). Further, what exactly constitutes a safe sideline with murky factors like degradation of the spending power of money, currency parity instability, sovereign debt risk and so on.

Importantly, the number proffered above has a survivor bias and represents a global index of opportunities with no movement between the alternative options, no short selling of indices and clearly no specific stock selection. We at Platinum can hopefully achieve success in some of the choices over time, though not necessarily all of them simultaneously. So moving from the general to the particular, it is not surprising that with the breadth of choices and a systematic process, we can and have, done better than the static model over time.

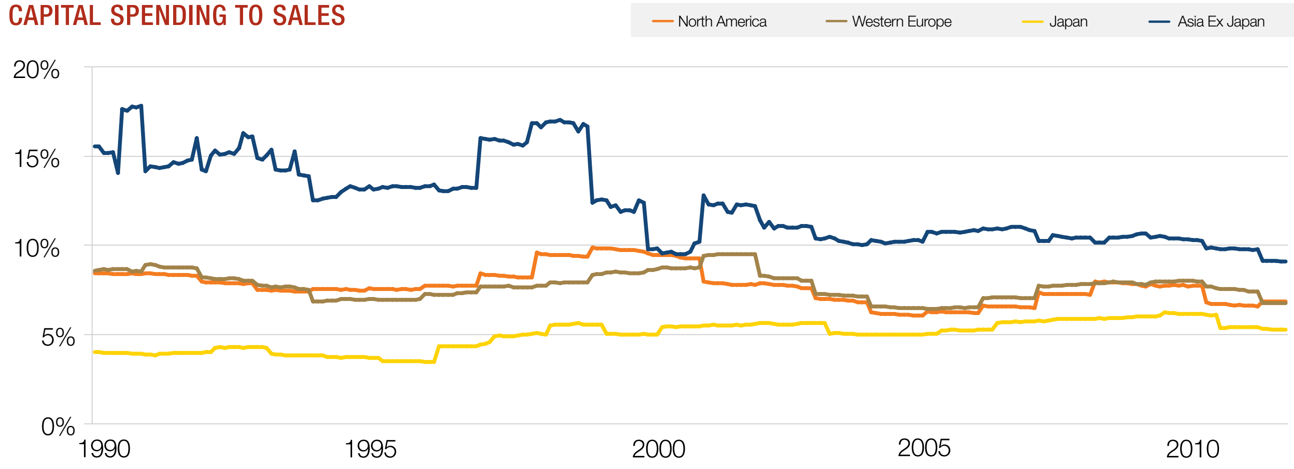
More specifically, our databank that comprises the operating figures of about 15,000 companies globally, shows the composite pattern of ratios such as capital spending to sales, profitability to sales, and profitability to assets over the last 20 years (see two charts below). All these indicators show that businesses are very healthy and that capital spending among the major companies has certainly not been excessive. We would acknowledge, however, that the profitability figures are higher than in the preceding 20 years!

When we then progress to measure the value that the market attaches to these listed companies, they look quite enticing from a 20 year historic perspective even though we suspect there will be more pressure on corporate profitability than is currently factored in to analysts' forecasts.

This, however, just sets the backdrop because as stock selectors we burrow down further to the industry and then to the individual company. **Here we find the true building blocks of our portfolio.**

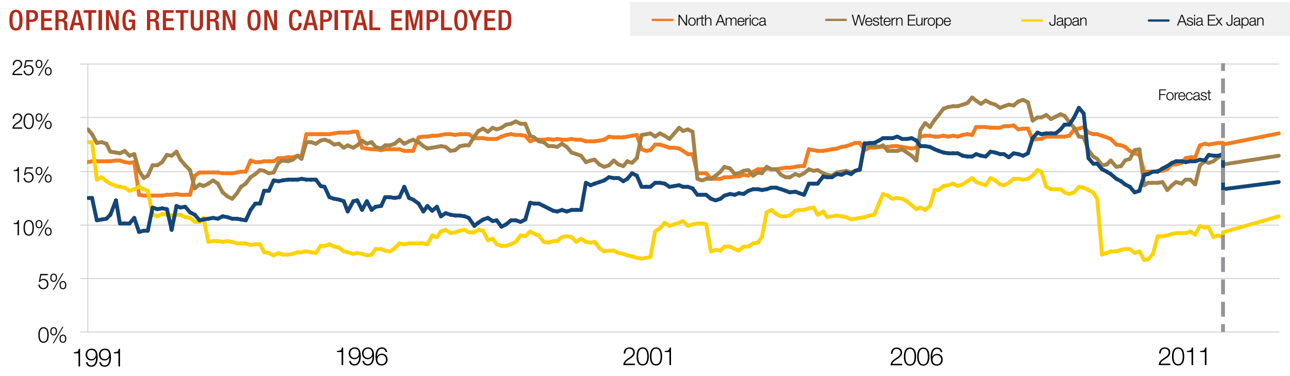
For all the turmoil, one must surely believe there are **technical innovations** that will allow specific industries to grow or to reflect pricing power caused by "shortages". The Internet is spawning a host of new opportunities and simultaneously causing the demise of the traditional services they depose. We have exposure to aspects of the plumbing of the Internet, its devices and services. Names like Sina, Shanda and CyberAgent are growing strongly as social networks and Samsung Electronics, Shin-Etsu Chemical and Marvell play important roles in the devices that interface with the consumer. Even the former champions of IT, seemingly now deposed and slow growing, namely Microsoft, Cisco and Yahoo, have interest for us because

CAPITAL SPENDING TO SALES



Source: Factset

OPERATING RETURN ON CAPITAL EMPLOYED



Source: Factset